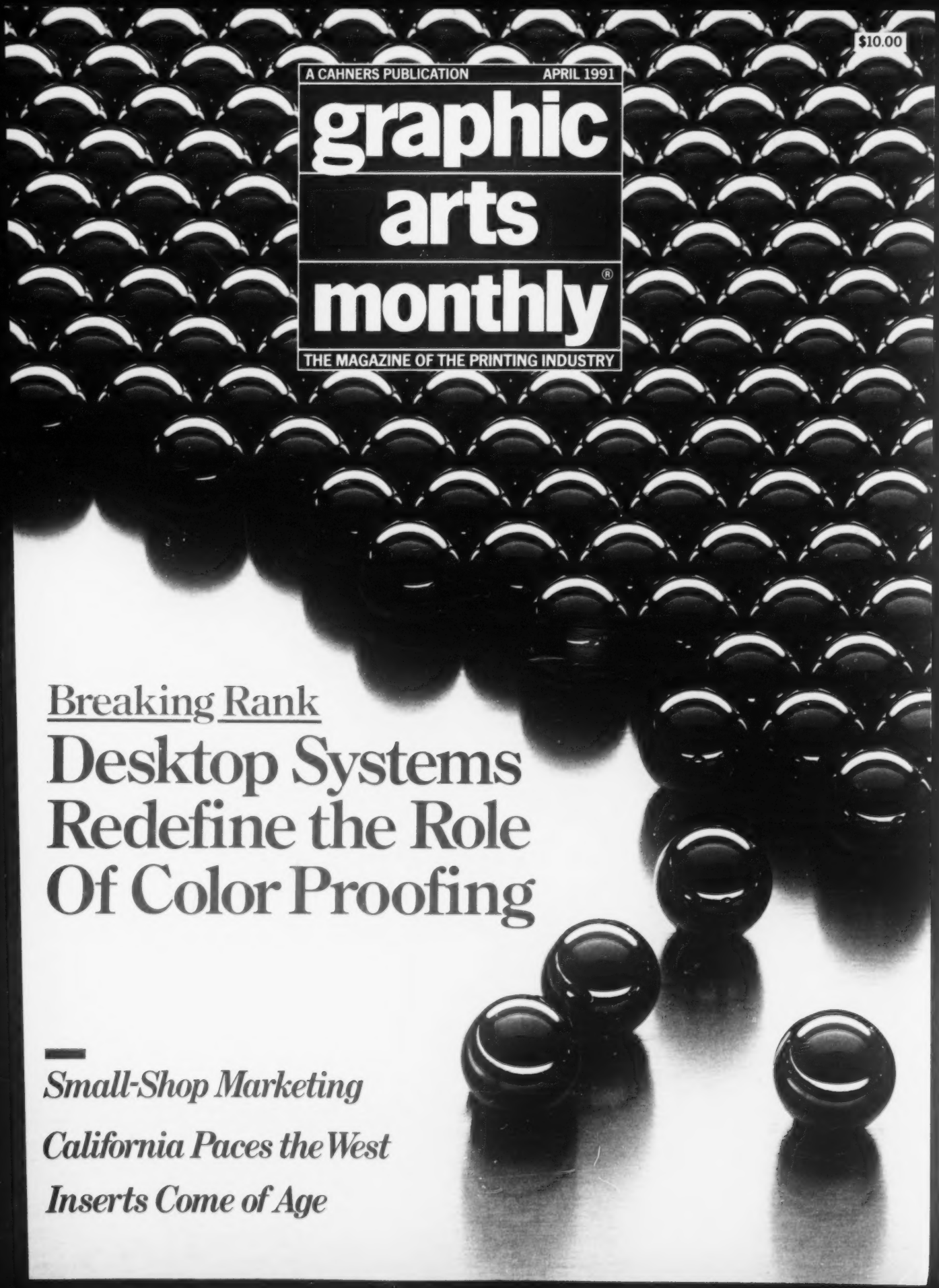

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A CAHNERS PUBLICATION APRIL 1991

graphic arts monthly®

THE MAGAZINE OF THE PRINTING INDUSTRY

Breaking Rank

Desktop Systems Redefine the Role Of Color Proofing

Small-Shop Marketing

California Paces the West

Inserts Come of Age

VOLUME 63, NUMBER 4

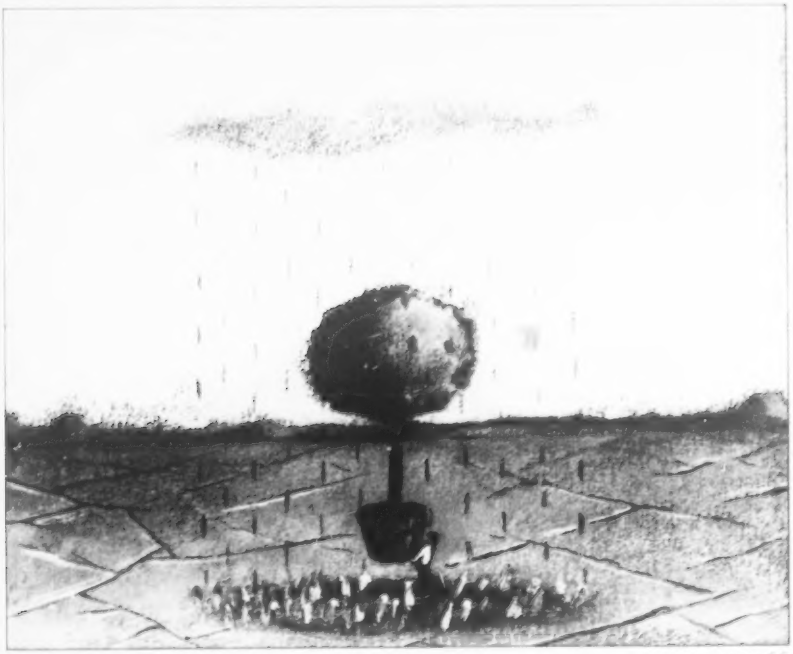
A CAHNERS PUBLICATION APRIL 1991

TOTAL CIRCULATION: 99,585

graphic arts monthly

THE MAGAZINE OF THE PRINTING INDUSTRY

FEATURES



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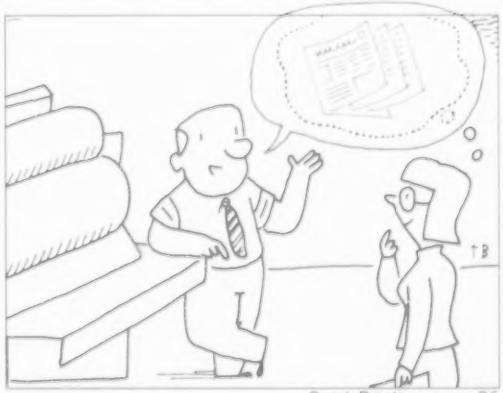

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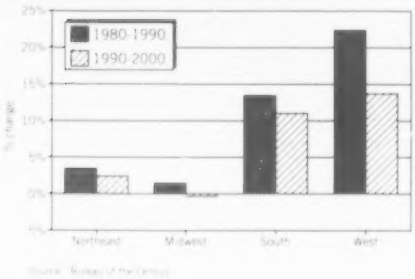
Population Growth Strongest in the Sunbelt, West



Source: Bureau of the Census

Early results from the 1990 census show the U.S. population rose 9.8% from 1980 to 1990, to total over 248 million. This represents an average annual increase of 2.2 million people. U.S. population growth in the 1980s was only slightly slower than in the 1970s, when it was 11.4%, or 2.3 million people per year.

Population increases continued to be much greater in the Sunbelt—the South and West regions—than in the Frostbelt, even though key areas in the Frostbelt experienced a strong economic boom during the 1980s, and key areas of the Sunbelt were in recession. Population growth in the Northeast region was 3.4% from 1980 to 1990. Growth in the Midwest was even lower at 1.4%. Meanwhile, the population in the South and West grew 13.4% and 22.3%, respectively, over this period.

States in the West claim six of the top 10 spots, in terms of population growth, including the top three: Nevada, Alaska, and Arizona. Only one state in the Frostbelt, New Hampshire, joined the top 10 states with the highest population growth. In absolute growth terms, 45% of the total population gains for the nation were in the South, as the South gained an additional 10 million people throughout the 1980s.

The U.S. Census Bureau projects that population growth in the 1990s will slow even further. Regional disparities are even greater in this projection. Slow population growth in the Midwest will turn to a slight decline. Both the South and the West will continue to outpace the national growth rate; the fastest-growing regions over the next decade will be the Mountain states (14.5%), the South Atlantic states (14.3%), and the Pacific states (13.4%).

Employment in the printing and publishing industry finished 1990 with 3,400 fewer workers, placing the year-end average 0.9% above the previous year. Most of the employment decline stemmed from the printing side of the industry. The commercial printing sector lost 2,400 jobs from December 1989 to December 1990. Employment in the manifold business forms sector declined by 1,600 jobs, and blankbooks and bookbinding lost 200 jobs over this period. Industry wages managed to post healthy gains. Wage gains were 3.5% in commercial printing, 3.4% in business forms, 1.7% in blankbooks and bookbinding, and 3.7% in printing trade services.

PRINTING INDUSTRY SUPPLY INDICATORS

				Annual Percent Change			
	Dec 89	Nov 90	Dec 90	1989	1990	1991	1992
Employment							
Printing & publishing (1)	1581.5	1578.0	1578.1	1.0	0.9	0.8	2.4
Commercial printing (1)	553.5	551.7	551.1	0.9	0.9	0.7	2.5
Productivity							
Printing & publishing (2)	99.5	107.6	103.4	5.0	2.2	2.6	1.8
Average Hourly Earnings							
Printing & publishing (3)	11.09	11.38	11.46	3.4	3.4	3.4	3.6
Commercial printing (3)	11.36	11.61	11.72	3.3	3.5	2.8	3.7
Paper shipments							
Coated paper (4)	585	642	564	-2.6	3.9	4.7	2.4
Uncoated groundwood (4)	123	151	147	10.0	0.4	-1.0	3.1
Uncoated free sheet (4)	864	942	930	-2.6	4.1	1.8	4.1
	Q3/89	**Q2/90**	**Q3/90**	**1989**	**1990**	**1991**	**1992**
Graphic Arts Machinery							
new orders (5)	170.5	140.3	113.0	4.0	-8.9	6.5	6.6
shipments (5)	154.4	146.6	136.2	1.5	-7.4	-2.8	6.2
Graphic Arts Supplies							
shipments (5)	143.3	155.0	148.6	4.5	4.0	4.8	3.3

(1) thousands of employees, U.S. Dept. of Labor; (2) index, 1977=100, Cahners Economics; (3) dollars per hour, U.S. Dept. of Labor; (4) thousands of short tons, American Paper Institute; (5) index, 1981=100, NPES.
All forecasts by Cahners Economics.

Inserts Come of Age

This once rapid-growth printing market is no longer immune to the ill effects of a slow economy.

It's hard to imagine a Sunday newspaper free of advertising circulars and coupons. Free-standing inserts have become a section of their own in the nation's newspapers.

The free-standing insert is defined as any preprinted product that is inserted into a newspaper, but is not part of the actual printing process of the newspaper. While the retail products and services offered in inserts appear unlimited, there are basically two types of free-standing inserts: advertising circulars and coupons.

In the past, both components of the insert printing market have been victorious in gaining advertisers' dollars in an economic downturn. Inserts are considered by retailers to be the most cost-effective means of delivering an advertising message. Printing an insert is less expensive than radio and television advertising. Since inserts contain pricing information, they are better traffic builders than television and radio, which are used primarily to build image.

"Some companies have a tendency during tough times like now to increase their print expense. The simple facts are that circulars work; they are of high value to the retail company versus other advertising mediums," explains Bob Russell, senior vice president–sales, Quebecor, Montreal.

In general, ad circular and coupon printers have performed well in recessionary periods of the economy. However, the current economic downturn has ad circular printers worried, while coupon printers report gains.

"This recession, for whatever reason, is different," says James Pentecost, president, Printco, Greenville, Mich. "We're seeing some cutbacks by the retailers in their entire ad budgets, including inserts. We've also noticed that page counts in the last year have been less than in prior years." Adds Jim Middendorf, marketing director, catalog group, R.R. Donnelley & Sons, Chicago, "1991 is being approached cautiously by most retailers and discounters; selected companies, however, are advertising aggressively. Our expectations are for a stronger demand in the second half of the year."

It's no secret that the retail business is not particularly good right now. Christmas was, in a word, a disaster for the retail industry. In addition, a number of retail companies have gone out of business or been acquired, thus shrinking insert printers' client base.

"There has been a big shakeout with our traditional retail customer," reports Russell. "For example, Ames bought Zayre, and now Ames has filed for Chapter 11. When Ames acquired Zayre, it consolidated some of its print requirements, and was buying less print."

The consolidation among retailers will certainly have an impact on the printers of ad circulars. Middendorf predicts the following:

—As retailers consolidate, they will tend to combine their ad requirements more to improve their purchasing clout.

—Retailers will probably rely more on their proven suppliers with a broad range of production and distribution capabilities.

By Lisa Cross
Associate Editor

Peter Neumann

—The overall result will be fewer but larger printers.

—Printers, to be successful, will have to find their best market niche.

The growth experienced in the ad circular printing market in the mid-1980s has already begun to wane. Coupled with a decreasing client base and a saturation of the marketplace are changes that have occurred in printing equipment and the printing process used to meet the market's needs. Printers are purchasing presses that are faster and more efficient than the presses they're replacing. Additionally, there has been a gradual change to print inserts heatset, with shorter cutoffs.

"If printers are replacing press for press, the presses that are coming on line have more capacity and output than the old presses," reveals Pentecost. "So there are more presses or more capacity in the market and a slowed market growth; these lines are crossing and it's causing an overcapacity problem."

In certain months there is overcapacity in ad circular printing, while in other months capacity is very limited. Says Middendorf, "This situation is created by the varying seasonal demand for printed advertising relating to holidays, i.e., Christmas and promotions such as back-to-school."

The end of the year is usually the busiest for ad circular printers, and then it becomes an issue of not enough capacity to print. However, points out Pentecost, "A lot of the pricing that we're offering now to our customers is locked in for the year." He adds, "I hate to sound so pessimistic, but we are preparing ourselves to weather out the storm; and we're prepared for a long storm, you might say."

The overcapacity problem plaguing the ad circular printing business is spotty as well, since there are four printing processes used: heatset, coldset, rotogravure, and flexography. According to company spokespeople from Sullivan Graphics, the breakdown of the insert indus-

Typical Products

Preprinted Advertising Sections in Newspapers
Broadsides, Tabloids
Product Coupons
Shopping Guides

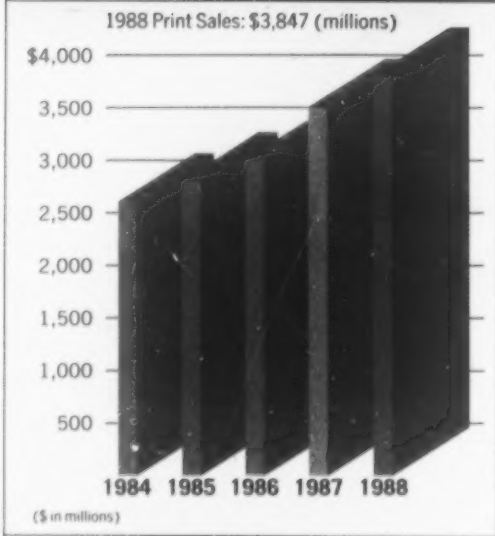
Typical Users

Retailers
Department/Discount Stores
Advertising Co-ops and Coupons

Printing Processes Used

Heatset
Rotogravure
Nonheatset
Flexography

Inserts



Major Printers—Inserts

Rank	Company	Sales in millions.
1	Treasure Chest Advertising	390.0
2	R.R. Donnelley & Sons Co.	330.0
3	Maxwell Communications Corp.	238.0
4	Sullivan Graphics Inc.	205.0
5	Charles Communications Inc.	128.0
6	Valassis Inserts	110.0
7	Brown Printing Company	105.5
8	Meredith/Burda Corp.	90.0
	QuadGraphics Inc.	90.0
10	Shea Communications	60.0

Source: Print/Markets

Chart by Annabelle Carter

try, by printing process, based on industry data, is as follows: nearly 40% is heatset offset, 33% cold web offset, 25% rotogravure, and flexo at approximately 3%.

"Certainly there is an overcapacity for some types of equipment, but I wouldn't say there's overcapacity across the board," reports Alan Zeigler, marketing vice president for Sullivan.

For the ad circular printer, business is fiercely competitive, not only because of capacity issues but because of pressures from the retailers. As retailers struggle to survive, they are asking suppliers for help in cutting their costs.

"You have an implicit message coming from the retailer that we as a retailer are not doing well and therefore our suppliers have to help us, and that may be in the area of cutting costs for the retailer," Pentecost explains.

Despite a not-so-bright economic picture, printers of ad circulars have made strong commitments to remain competitive. Better service and significant investments in printing facilities have been the printer's answer to differentiating themselves from their competition.

Some printers are easing the burden of distribution and costs to gain market share. Sullivan Graphics is capitalizing by extending the use of its presses that print newspaper comic sections.

Explains Zeigler, "At the same time we're printing the comics, we can print four-color advertising that is delivered from the press as part of the comics section. But as far as the consumer's eye can tell, it's a completely free-standing insert."

The advantages are better control of distribution and cost since the insert does not have to be inserted by the newspaper.

"The distinct difference for our clients is the price advantage by doing a comic press insert versus a free-standing insert and paying a substantial fee to insert it," says Zeigler.

The ads on comics can take any number of formats. For example, they can be wrapped around the comics; folded as a tabloid or standard page format placed in the center of the comics—like all the other inserts; or printed on the same pages as the comics, which is known as in-comic advertising.

Huge capital investments by printers have become a regular requirement in the insert printing business. "The capital cost to stay in this business for a printer is a great one," reports Russell. "The technology for prepress or press constantly improves and we have to commit the capital necessary to stay on top."

"All retailers are looking for better quality, shorter schedules, and cheaper prices," he adds.

Treasure Chest Advertising recently expanded its San Antonio Division to house a new wide-width heatset press. Company representatives report that with the installation of the press they plan to capture an increased share of the advertising circular market and open new markets, including catalogs, this year. In the last five years the company invested more than $100 million in new plants and equipment.

For coupon printers, on the other hand, business is booming. As with ad circulars, brand managers and marketers putting their budgets under tight scrutiny also tend to move away from expensive, long-term, image-building, and often-immeasurable advertising, and migrate to coupons. Coupons have an immediate effect on sales, are measurable, and contribute to keeping distribution and forcing trade support promotions with merchandising.

"Our company has lived through a couple of recessions. It appears we're in our third one and we're experiencing an upturn in our business," says David Brandon, chief executive officer, Valassis Inserts.

"During the first quarter of this year pages are up and sales activity is strong. Certainly the recession is a contributing factor," Brandon.

Thus, even as coupon industry insiders report their business is performing well, the ad circular business has leveled off. The situation could change, based on shifts in capacity and the direction of the economy. Stay tuned to your local newspapers for further developments.

graphic arts monthly

California Sets Hot Pace

The Pacific states (Alaska, California, Hawaii, Oregon, and Washington) comprise the most far-flung and arguably the most beautiful region of the entire country. The region extends from below the Tropic of Cancer to Pt. Barrow, Alaska, several hundred miles above the Arctic Circle, and contains virtually every kind of landscape that occurs on earth, not to mention the differing human populations.

We point this out partly by way of apology to Alaska, Hawaii, Oregon and Washington. This is, after all, a specialized economic survey, and not strictly a tour guide, which means that these four states, for all their wild beauty, here will serve mostly as footnotes to a report on California.

The reason for this is that California is far and away the most populous state in the union. With its 27 million people it is not merely one of the so-called super states, it is in some ways *the* super state. It is a whopping 52% larger than the second-largest state, New York.

It isn't that dominant in the printing industry (though it is, in terms of volume, the leader), primarily, we suspect, due to the regulations of the United States Postal Service. As long as second- and third-class postage are calculated on the number of zones a piece has to cross (and as long as 200 million or so people persist in *not* living in California), there will be many kinds of long-run printing that cannot be cost-effectively done on the West Coast.

California still manages to be pretty dominant, though; its total printing volume is 25% larger than New York and 27% larger than Illinois, the other two major printing states. Regionally it has almost 82% of the printing in the five-state area.

By all the yardsticks we employ to measure the printing industry in this series, printing in the Pacific (everywhere, not just in California) is thriving. Sales growth for the region, 1989-1990, was 7.8%, a full point higher than we saw in the East North Central last month.

In our ongoing survey of small-to medium-sized commercial printers, almost 68% reported a sales gain for the period, the largest percentage we have seen so far. The percentage of those reporting large gains (i.e., gains of more than 10%) is also slightly larger than in previously studied regions. In terms of profitability and capacity, the gap narrows; the Pacific and the East North Central are roughly the same. To see what effect dynamic growth can have, take a look at our Perception Index. The percentage of those perceiving business as up is 38.8%, the highest yet studied; by way of contrast, the same number for New England was 11.4%.

The most revealing portion of the fold-out presents survey results among commercial printers. It shows sales changes from 1989 to 1990, the extent of those changes, profitability and capacity comparisons, and a business perception index.

Reprints of this installation may be ordered directly from Carol Bien, Cahners Publishing Company, Reprint Department, 1350 E. Touhy Ave., Des Plaines, Ill., 60018.

Jean Wisenbaugh

By Peter Johnston
Special Projects Manager

Regional Overview

Printing is a solid contributor to the economy of the Pacific region, though it ranks well behind aerospace/defense, agriculture, electronic equipment, oil, tourism, and movie and television production. Advertising, newspaper inserts, and commercial printing are the leading segments among larger printing companies. Dollar figures given throughout this report are unadjusted for inflation.

COMMERCIAL PRINTING

Value of Shipments

State	Sales, 1990 ($ million)	% of Region	Sales, 1989 ($ million)	% change (1989-1990)
California	$8,033	81.6%	$7,442	7.9%
Washington	904	9.3%	841	7.5%
Oregon	751	7.6%	699	7.4%
Hawaii	118	1.2%	110	7.3%
Alaska	33	0.3%	31	9.6%
TOTAL	**$9,839**	**100%**	**$9,123**	**(avg.) 7.8%**

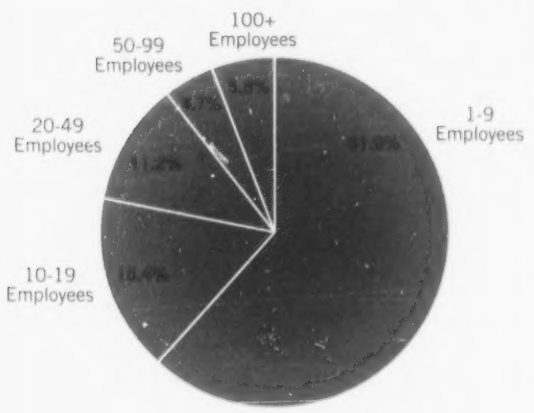
Source: PIA Economics Department

Printing Sites

State	Sites
California	4,757
Washington	599
Oregon	464
Hawaii	93
Alaska	33
TOTAL	**5,946**

Source: PIA Economics Department

All Graphic Arts Plants, by Employee Count



Source: GAM 1990 Plant Equipment Market Profile

Charts and graphs by Lisa Hilgers

All Graphic Arts Plants, by Function

Function	# of Plants
Commercial	4,118
Newspaper (w/Commercial)	139
Newspaper (w/o Commercial)	281
Book & Pub	415
Business Forms	122
Converters	219
Noncommercial	1,105
Trade	758
Quick Printers	905

Source: GAM 1990 Plant Equipment Market Profile

DEMOGRAPHICS

Population

State	Population	Rank
California	26,981,000	1
Washington	4,462,000	20
Oregon	2,698,000	30
Hawaii	1,062,000	39
Alaska	534,000	49
TOTAL	**35,737,000**	

Population Changes

State	Change (1980-86)	Net Migration
Alaska	32.8%	71,000
California	14.0%	1,778,000
Hawaii	10.1%	16,000
Washington	8.0%	105,000
Oregon	2.5%	– 49,000

Educational Attainment

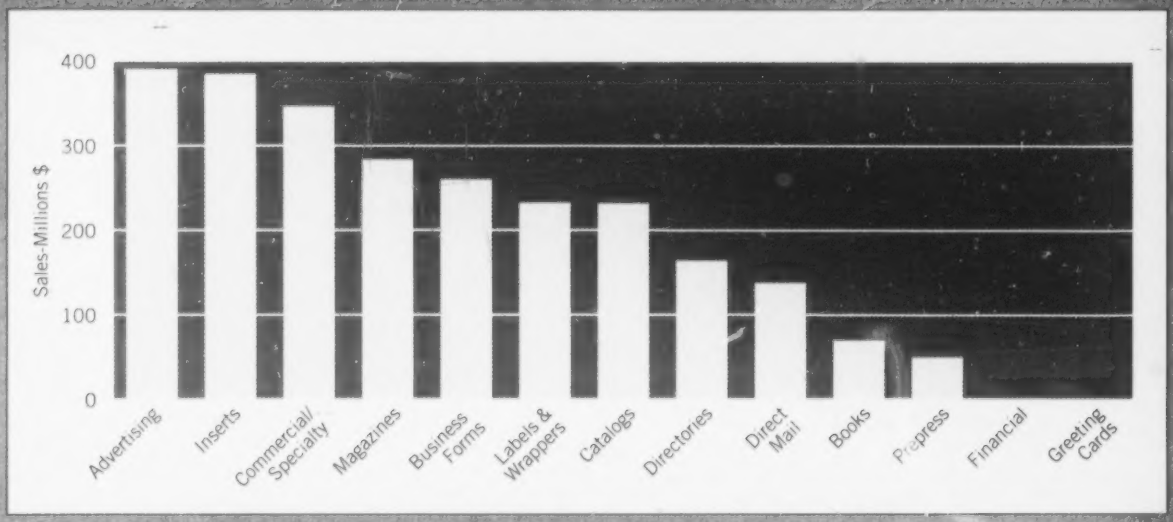
State	High School Graduates	College Graduates
U.S. Average	66.5%	16.2%
Alaska	82.5%	21.1%
Washington	77.6%	19.0%
Oregon	75.6%	17.9%
Hawaii	73.5%	20.3%
California	73.5%	19.6%

Source: U.S. Dept. of Commerce; Bureau of the Census

Market Profile

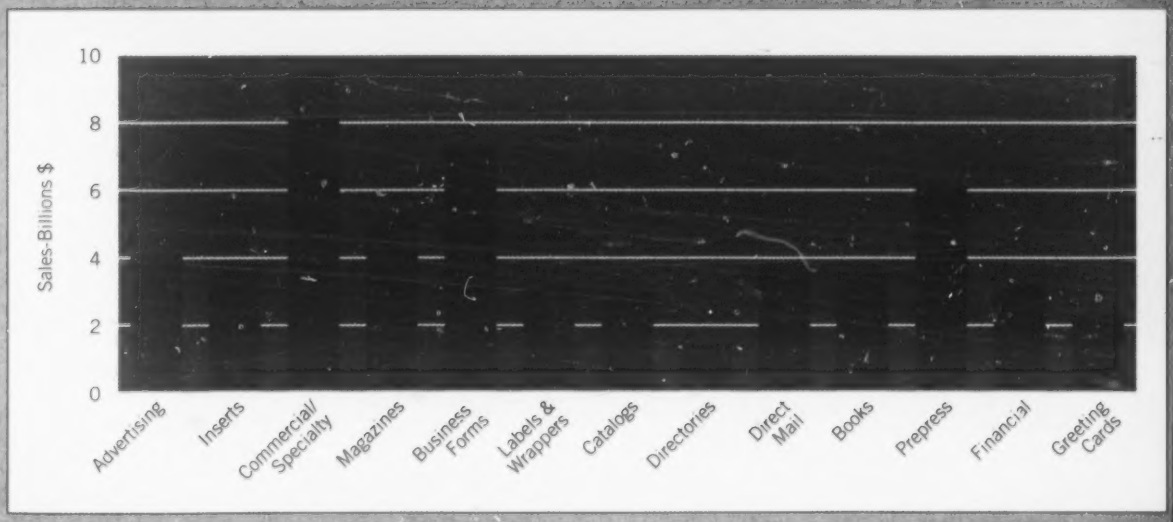
Ranking of Product Segments . . .

As we noted on the cover page, geographic and postal considerations make the magazine, catalog, and direct-mail segments in the Pacific somewhat less important than they might be otherwise. Greeting cards does not appear in regional totals; it is a segment comprised of a few major players, all located elsewhere. Financial & legal, almost entirely concentrated in the Northeast, is also missing. Among the other major segments, the distribution is surprisingly even. Note that the region's top two categories comprise about 10% of the total, in line with population proportions.



. . . Compared to National Totals

These bar charts are presented in similar order to simplify comparison between segment concentration in the Pacific region and the U.S. as a whole. Beyond greeting cards and financial & legal printing, there are some interesting disparities. Both commercial printing and prepress are proportionately far less important in the Pacific, while advertising and inserts (as befits California's enormous population) are quite a bit more dominant. After the two leaders, the region's segment share drops to 3.6% in commercial/specialty, 5.6% in magazines, and 3.5% in business forms.



Leading Printers in Major Markets

COMPANY	SALES
ADVERTISING PRINTERS	
Graphic Arts Center, Portland, OR	45.0
Anderson Lithograph, Los Angeles, CA	30.0
George Rice & Sons, Inc., Los Angeles, CA	30.0
K/P Graphics, Berkeley, CA	23.0
Frye & Smith, Costa Mesa, CA	17.0
Penn Lithographics, Cerritos, CA	17.0
Welsh Graphics, Pasadena, CA	17.0
Madison/Graham ColorGraphics, Los Angeles, CA	15.0
The Dot Printer, Inc., Irvine, CA	14.0
George Lithograph Company, San Francisco, CA	14.0
INSERT PRINTERS	
Riverside County Publishing, Riverside, CA	85.0
GBP Industries, Pittsburg, CA	40.0
Sun Litho Inc., Van Nuys, CA	35.0
Treasure Chest Advertising, City Of Industry, CA	30.0
Rotary Offset Sales Company, Seattle, WA	26.5
RFD Publications, Tigard, OR	26.5
Treasure Chest Advertising, West Sacramento, CA	23.0
Treasure Chest Advertising, Pomona, CA	21.0
Treasure Chest Advertising, Portland, OR	20.0
Continental Graphics, Los Angeles, CA	16.0
COMMERCIAL/SPECIALTY PRINTERS	
Scantron Corporation, Tustin, CA	34.0
George Rice & Sons, Inc., Los Angeles, CA	33.0
Pacific Lithograph Company, San Francisco, CA	30.8
Jostens Printing & Publishing, Visalia, CA	25.0
Continental Graphics, Los Angeles, CA	20.0
Fong Brothers Printing, Brisbane, CA	16.0
Sinclair Printing Company, Los Angeles, CA	13.5
Craftsman Press Printing, Seattle, WA	13.5
The Dot Printer, Inc. Irvine, CA	12.5
Lithotype Company, South San Francisco, CA	12.0
MAGAZINE PRINTERS	
Arcata Graphics, San Jose, CA	55.0
R.R. Donnelley & Sons Company, Torrance, CA	50.0
GBP Industries, Pittsburg, CA	25.0
World Color Press, Inc., Merced, CA	25.0
Ringier America, Inc., Fullerton, CA	23.0
Continental Graphics, Los Angeles, CA	17.0
California Offset Printers, Glendale, CA	12.0
Treasure Chest Advertising, Pomona, CA	10.0
Treasure Chest Advertising, West Sacramento, CA	10.0
Wolfer Printing Company, Commerce, CA	10.0
BUSINESS FORMS PRINTERS	
Vanier Graphics Corporation, Santee, CA	63.0
Apperson Business Forms, Los Angeles, CA	32.0
Riccobon Business Forms, San Fernando, CA	22.0
Advance Business Forms, Mira Loma, CA	18.0
Wright Business Forms, Inc., Portland, OR	17.5
Sterling Business Forms, Central Point, OR	16.5
Block Business Forms, Portland, OR	16.0
K/P Graphics, Berkeley, CA	15.0
Avery International, Pasadena, CA	15.0
Wright Business Forms, Inc., Portland, OR	12.0
LABEL/WRAPPER PRINTERS	
Avery International, Pasadena, CA	110.0
H. S. Crocker, Co., South San Francisco, CA	42.0
GM Nameplate, Seattle, WA	19.0
Vanier Graphics Corporation, Santee, CA	13.0
Label-Aire, Inc, Fullerton, CA	9.0
Bert-Co Graphics, Los Angeles, CA	8.5
National Printing Converters, Van Nuys, CA	8.5
MPI Label Systems, Stockton, CA	8.0
Pacific Lithograph Company, San Francisco, CA	7.7
Bee Line Inc., Union City, CA	5.5
CATALOG PRINTERS	
Graphic Arts Center, Portland, OR	65.0
George Rice & Sons, Inc., Los Angeles, CA	27.0
Continental Graphics, Los Angeles, CA	25.0
Anderson Lithograph, Los Angeles, CA	20.0
R.R. Donnelley & Sons Company, Torrance, CA	15.0
DIRECTORY PRINTERS	
World Color Press, Inc., Merced, CA	70.0
GTE Directories Press, Los Angeles, CA	45.0
Norwest Publishing Company, Portland, OR	40.0
Ringier America, Inc., Fullerton, CA	5.0
Andrews Printing Co., Lakewood, CA	3.0

Selective listing, which indicates only the concentration of larger plants in larger segments, is from *Printmarkets*, Trade & Technology Press, Stamford, Conn., based on data provided by firms involved. Sales in millions.

How Printers Are Doing

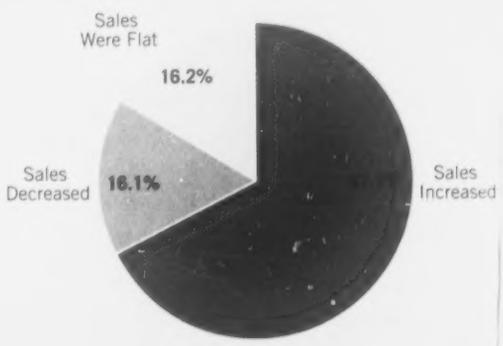
Based on a survey of firms in the region, conducted by Cahners Publishing

Profile of Respondents

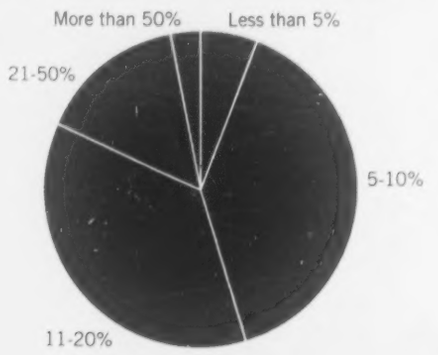
Commercial printers in the Pacific region responding to a recent mail survey reported year-over-year changes in their annual sales, profitability, and operating capacity. They also revealed how they perceived the outlook for business in their area. The following information is as reported by survey respondents; 1990 gross sales were estimated.

Gross Sales in 1990		# of Employees	
Less than $500,000	8%	1-4	7%
$500,000-749,999	17%	5-9	17%
$750,000-999,999	20%	10-19	38%
$1 million-2,499,999	31%	20-49	24%
$2,500,000-4,999,999	16%	50-99	10%
$5,000,000-9,999,999	6%	100 +	4%
$10 million or more	2%		

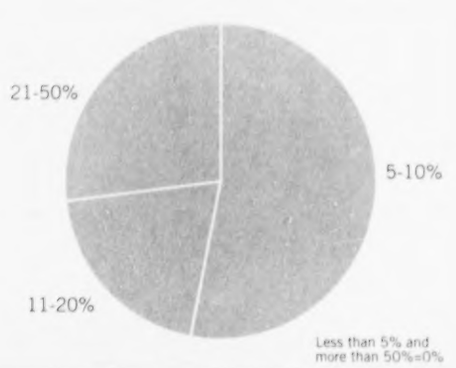
How Sales Changed, 1989 to 1990



If Sales Increased, How Large Was Increase?

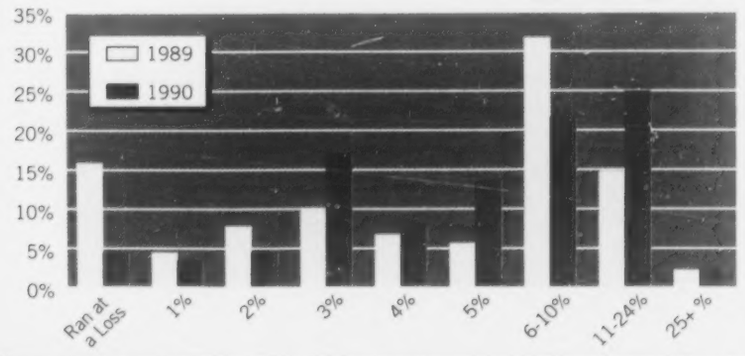


If Sales Decreased, How Large Was Decrease?

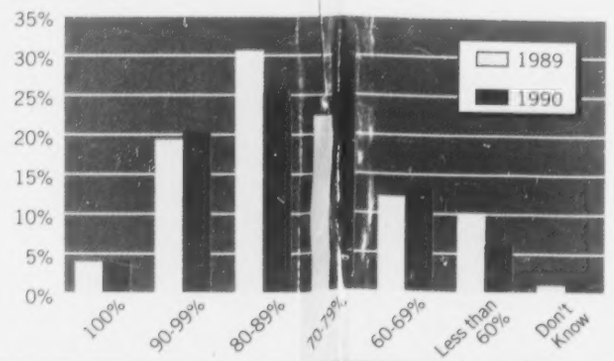


PROFITABILITY & CAPACITY

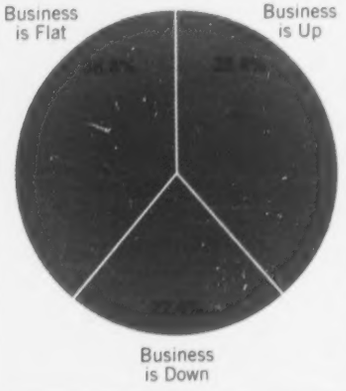
Profit as a percentage of gross sales



Operating percentage of plant capacity



Perception Index



Comments by Printers

- We're giving our customers quality printing at a low price.
- With the addition of an eight-color web and one more sales rep, we are now swamped.
- This is a rapid growth market.
- We're looking very healthy at this time.
- Competition is intensifying due to faster presses and more plants.
- With the general recession and decline in military spending and tourism, I still believe our sales will be stable.